NOREX
EXPLORATION SERVICES

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDING
APRIL 30, 2004

PRESIDENT'S MESSAGE TO SHAREHOLDERS

Fiscal 2004 proved to be a challenging time for geophysical companies in general. In a period of very high commodity prices, many oil and gas companies, income funds and royalty trusts are content to exploit production from existing reservoirs without substantial re-investment in grassroots exploration. While this is beneficial for some service companies, it is difficult for geophysical and seismic contractors.

Although revenue increased marginally year over year, our bottom line decreased slightly. We recognized early in fiscal 2004 that further belt tightening would be required and this was accomplished during the course of the year. However, the savings in general and administrative expenses were offset by the extra-ordinary legal, accounting and audit fees as incurred for the unsuccessful merger with Conquest Seismic Services. The result was a loss of $0.01 per share for fiscal 2004 compared to a profit of $0.01 last year.

In February 2003 we announced that Norex had entered discussions to merge with Conquest, potentially tripling the size of the Company. Negotiations continued for approximately 12 months between Norex, Conquest and various institutional investors. Although financing was arranged by Norex the final share exchange ratio for the Norex shareholders was not as originally anticipated. As a consequence negotiations were suspended.

Looking ahead Norex has two primary focal points: growing by way of acquisition and augmenting our existing operations.

While it may appear we are treading water in a difficult environment, our clients must eventually replace the reserves they are depleting with new exploration. In preparation for the resurgence in exploration activities we continue to upgrade our equipment. Although this does not provide an immediate benefit, our clients will require these new technologies eventually.

To further expand our operations we have been examining how our services can best be utilized for coal bed methane (CBM) projects. In the last 18 months hundreds of millions of dollars have been spent on CBM-related acquisitions, land prices in some CBM-prone areas have doubled and commercial production from CBM wells, while still tiny, has risen dramatically.

The science behind CBM wells implies that some wells need to produce hundreds of barrels of water a day in order to get at the gas stores, which can cause a major environmental stir. In Alberta, natural gas can be produced from so-called dry coals. With coal running under 80 per cent of Alberta, industry expects to drill more than 1,200 CBM wells this year. By 2010, forecasts from several statistical groups put CBM output around 1.3 bcf/d, or roughly eight per cent of current Canadian production. Canadian CBM could be poised on the cusp of a busy future.

Norex with it's unique surface energy source, the Enviro-Vib, is in a position to be at the forefront of CBM seismic technology. In Canada and the U.S. the effort is to detect dry coal from wet coal deposits. Commencing September 2004 Norex, in partnership with the University of Calgary, will undertake a research project to investigate a seismic field technology to detect dry coal from wet coal utilizing the Enviro-Vibs. Successful results would greatly expand and diversify Norex's revenue base in the near future.

Our second focal point for fiscal 2005 is growth through acquisition. Norex's management, directors and major shareholders are very keen in this regard. Due to the lack of closure to the Conquest deal Norex's share value has suffered a substantial decline. However, while we are disappointed that the transaction with Conquest was not concluded we are not dissuaded from examining other opportunities. As there are currently 15 seismic contractors and 22 data centers in the Calgary area, we are pursuing geographic diversification. In this regard we are currently in discussions with a U.S. company operating internationally and with a Canadian company which operates both in the U.S. and Canada.

Norex is fortunate to have an experienced and knowledgeable management team and board of directors, and a very dedicated staff. These people play an important role in our daily operations and our corporate planning efforts. I sincerely thank our shareholders for their continued support as Norex progresses.

On behalf of the Board of Directors,

B. (Ben) Berg

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Norex Exploration Services Inc. as at April 30, 2004 and 2003 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
August 23, 2004

NOREX EXPLORATION SERVICES INC.

Consolidated Balance Sheets
As at April 30

		2004		2003
Assets				
Current assets				
Accounts receivable	$	**3,650,172**	$	3,880,611
Prepaids and deposits		**31,827**		27,759
Income taxes receivable		**-**		2,787
		3,681,999		3,911,157
Goodwill		**150,000**		150,000
Capital assets (*note 4*)		**1,822,069**		1,972,032
	$	**5,654,068**	$	6,033,189
Liabilities and Shareholders' Equity				
Current liabilities				
Operating lines of credit (*note 5*)	$	**855,332**	$	667,295
Accounts payable and accrued liabilities		**2,736,595**		2,943,239
Demand loan *(note 6)*		**215,607**		261,657
Current portion of capital lease obligations (*note 7*)		**164,463**		144,560
		3,971,997		4,016,751
Capital lease obligations (*note 7*)		**457,632**		705,425
Due to shareholders (*note 8)*		**222,001**		222,001
		4,651,630		4,944,177
Shareholders' equity				
Share capital (*note 9*)		**357,611**		357,611
Retained earnings		**664,827**		731,401
		1,002,438		1,089,012
	$	**5,654,068**	$	6,033,189

Commitments (*note 14*)

Approved by the Board:

(signed) B. (Ben) Berg Director

(signed) Dallas Droppo Director

See accompanying notes to consolidated financial statements.

NOREX EXPLORATION SERVICES INC.

Consolidated Statements of Operations and Retained Earnings
For the years ended April 30

		2004		2003
Revenue				
Seismic acquisition and processing	$	11,403,484	$	11,073,112
Direct expenses				
Contractors		4,339,254		3,721,520
Wages, benefits and subsistence *(note 11)*		2,764,281		2,962,133
Field supplies and consumables		1,420,841		1,536,649
Equipment rentals		1,376,945		1,165,865
Vehicle operating		178,591		215,203
		10,079,912		9,601,370
Income before the undernoted		1,323,572		1,471,742
General and administrative expenses		856,205		829,044
Amortization		508,678		470,495
Interest on long-term debt		106,179		98,121
Gain on sale of capital assets		(45,812)		(19,790)
Income (loss) before income taxes		(101,678)		93,872
Income taxes *(note 10)*				
Current tax (recovery) provision		(15,104)		7,475
Net income (loss) for the year		(86,574)		86,397
Retained earnings, beginning of year		731,401		645,004
Retained earnings, end of year	$	644,827	$	731,401
Income (loss) per share – basic and diluted *(note 9)*	$	(0.01)	$	0.01

See accompanying notes to consolidated financial statements.

NOREX EXPLORATION SERVICES INC.

Consolidated Statements of Cash Flows
For the years ended April 30

		2004		2003
Cash provided by (used in)				
Operations				
Net income (loss) for the year	$	(86,574)	$	86,397
Items not involving cash				
Amortization		508,678		470,495
Gain on sale of capital assets		(45,812)		(19,790)
		376,292		537,102
Change in non-cash working capital (*note 12*)		22,514		(737,858)
		398,806		(200,756)
Investing				
Acquisition of capital assets		(381,403)		(147,493)
Proceeds from disposal of capital assets		68,500		48,141
		(312,903)		(99,352)
Financing				
Proceeds on operating line of credit (net)		188,037		667,295
Proceeds on (repayment of) demand loan		(46,050)		261,657
Repayment of long-term loan		-		(248,387)
Repayment of obligations under capital lease		(227,890)		(238,331)
Repayment of amounts due to shareholders		-		(53,200)
		(85,903)		389,034
Change in cash for the year		-		88,926
Bank indebtedness, beginning of year		-		(88,926)
Cash, end of year	$	-	$	-

Supplemental cash flow information:

Interest paid	$	106,179	$	98,121
Income taxes paid		-		7,475

See accompanying notes to consolidated financial statements.

1. Basis of presentation

Norex Exploration Services Inc. (the "Company") is incorporated under the Business Corporation Act (Alberta) and its common shares trade on the TSX Venture Exchange. The Company is a geophysical services company that provides specialized seismic services including seismic acquisition and seismic processing.

The consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiary, Norex Geophysical Inc, which were amalgamated on May 1, 2004.

2. Significant accounting policies

The financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada and, in management's opinion, have been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Capital assets

Capital assets are recorded at cost. Amortization is provided at various rates designed to amortize the assets over their economic useful lives. Rates are as follows:

Asset	Basis	Rate
Office equipment	declining balance	20%
Communications equipment	declining balance	20%
Vehicles	declining balance	30%
Exploration equipment	declining balance	20 - 30%
Cables and geophones	declining balance	30%
Computer hardware	declining balance	30%
Computer software	declining balance	100%
Seismic data	declining balance	20%
Tapes	declining balance	30%
Other	straight-line	33%

(b) Leases

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incident to the ownership of property is classified as a capital lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. Assets recorded under capital leases are amortized on a declining balance basis over the life of the assets.

(c) Per share amounts

The Company utilizes the treasury stock method in the determination of diluted per share amounts. Under this method, the diluted weighted average number of shares is calculated assuming that proceeds arising from the exercise of in-the-money options and other dilutive instruments are used to purchase, for cancellation, common shares of the Company at their average market price for the period.

(d) Revenue recognition

Revenue from the sale of seismic acquisition and processing services is recognized in the statement of operations when the related data is delivered to the customer.

2. Significant accounting policies (continued)

(e) Government assistance

Claims for assistance under a government grant program are recorded as a reduction of the cost of expenses in the period in which eligible expenditures are incurred.

(f) Future income taxes

The Company follows the liability method of accounting for income taxes. Under this method future tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities, and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change is substantively enacted. A valuation allowance is recorded against a future income tax asset if it is more likely than not that the asset will not be realized.

(g) Stock-based compensation plan

The Company has a stock-based compensation plan, which is described in note 9. Options granted to employees under the plan are issued at current market value and consideration paid to the Company on the exercise of stock options is credited to share capital. Options granted by the Company after May 1, 2003 are accounted for in accordance with the fair-value method of accounting for stock-based compensation, and as such the cost of the option is charged to earnings with an offsetting amount recorded to contributed surplus, based on an estimate of the fair value using the Black-Scholes option-pricing model. No compensation expense has been recorded for options granted to directors, officers and employees prior to May 1, 2003, rather the Company has presented pro-forma information. See note 9.

(h) Goodwill

Goodwill represents the excess of the cost of a acquisition over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill is not amortized but is tested for impairment at least annually. The Company monitors its goodwill balance to determine whether any impairment has occurred. In order to make that determination, the Company bases the recoverability using the current and estimated cash flows of the underlying business on an undiscounted basis. If this review indicates that goodwill will not be recovered, the Company recognizes a write-down of the unamortized portion of goodwill in excess of its recoverable amount.

(i) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. The amount recorded for depreciation of capital assets is based on estimates of useful lives and other relevant assumptions. These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

3. Change in accounting policy

Effective May 1, 2003, the Company prospectively adopted the recommendations of the Canadian Institute of Chartered Accountants on accounting for stock-based compensation. Stock-based compensation expense is recorded in the consolidated statement of operations for all options granted on or after May 1, 2003, with a corresponding increase recorded as contributed surplus. Compensation expense is based on the estimated fair values at the time of the grant and the expense is recognized over the vesting period of the option. As there were no options granted during the year, no compensation expense has been recorded. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested options expire, previously recognized compensation expense associated with such stock options is not reversed. In the event that vested options are cancelled, previously recognized compensation expense associated with such stock options is reversed. For options granted prior to May 1, 2003, the Company continues to disclose the pro forma loss impact of related stock-based compensation expense as permitted by the accounting pronouncement (see note 9).

4. Capital assets

April 30, 2004	Cost	Accumulated amortization	Net book value
Office equipment	$ 38,452	$ 24,438	$ 14,014
Communications equipment	43,504	27,681	15,823
Vehicles	497,535	343,992	153,543
Exploration equipment	3,425,462	2,075,300	1,350,162
Cables and geophones	428,101	339,893	88,208
Computer hardware	17,381	6,228	11,153
Computer software	3,167	2,073	1,094
Tapes	3,472	2,175	1,297
Seismic data	200,830	20,083	180,747
Other	28,010	21,982	6,028
	$ 4,685,914	$ 2,863,845	$ 1,822,069

April 30, 2003	Cost	Accumulated amortization	Net book value
Office equipment	$ 29,559	$ 22,046	$ 7,513
Communications equipment	41,806	23,937	17,869
Vehicles	501,074	337,551	163,523
Exploration equipment	3,454,891	1,767,415	1,687,476
Cables and geophones	348,066	319,240	28,826
Computer hardware	14,200	2,130	12,070
Computer software	3,167	979	2,188
Tapes	3,472	1,619	1,853
Seismic data	104,014	64,500	39,514
Other	28,010	16,810	11,200
	$ 4,528,259	$ 2,556,227	$ 1,972,032

4. Capital assets (continued)

During the year, $381,403 (2003 - $1,093,443) of assets were purchased, of which $nil (2003 - $945,950 of exploration equipment) was purchased through a capital lease.

At April 30, 2004, the total net book value of assets under capital lease was $749,949 (2003 - $949,733).

5. Operating lines of credit

The Company has a $1 million secured revolving line of credit facility due on demand and bearing interest at the bank prime rate plus 1.25%. The facility is secured by a general security agreement on all present and after-acquired assets with permitted encumbrances to specific leases, a first charge on specific assets with a net book value of $408,752 and a postponement of shareholders loans. As at April 30, 2004, $855,332 had been drawn on this facility.

In March 2004, the Company secured a temporary $500,000 revolving line of credit facility due on demand and bearing interest at the bank prime rate plus 2%. The temporary operating line of credit expires on July 1, 2004. The facility is secured by a general security agreement on all present and after-acquired assets with permitted encumbrances to specific leases, a first charge on specific assets with a net book value of $408,752 and a postponement of shareholders loans. As at April 30, 2004, no draws had been made on this facility.

6. Demand loan

The Company has a demand loan at bank prime rate plus 1.5% payable in monthly installments of $14,374 (2003 - $8,575) plus interest and secured by a general security agreement and a first fixed charge over certain assets with a net book value of $408,752 (2003 - $516,016).

As at April 30, 2004, the Company was in breach of the established 1 to 1 working capital ratio and 1.10 to 1 cash flow coverage ratio covenants on the operating lines of credit and demand loan. The Company has obtained a letter from the lender indicating that the lender acknowledges and accepts the covenant breach, however, the lender's acknowledgement does not represent a relaxation of any of the financial covenants. The operating lines of credit (note 5) and demand loan are, by their nature, current liabilities therefore no reclassification between long-term and current liabilities is required as a result of the non-compliance.

7. Capital lease obligations

The Company has the following capital lease obligations:

		2004		2003
Capital lease with an implicit interest rate of 5.375% per annum having blended monthly payments ranging from $10,000 to $28,917, from June 2002 to September 2006 and secured by leased assets with a net book value of $681,084 (2003 - $851,355).	$	597,685	$	774,898
Capital leases with interest rates ranging from 8.7% to 10.1% per annum having blended monthly payments of $1,492 (2003 - $5,210) to April 2006 and secured by leased assets with a net book value of $68,865 (2003 - $98,378).		24,410		75,087
		622,095		849,985
Less principal payments due within one year		(164,463)		(144,560)
	$	457,632	$	705,425

Future principal payments as at April 30, 2004 are as follows:

2005	$	164,463
2006		317,439
2007		140,193

8. Related party transactions

(a) During the year ended April 30, 2004, the Company was charged $158,500 (2003 - $160,000) by officers and directors for administrative and consulting services. These amounts are recorded at the exchange amount agreed to by the related parties.

(b) Advances from shareholders in the amount of $222,001 (2002 - $222,001) are non-interest bearing, unsecured with no fixed terms of repayment. The shareholders have advised the Company that they will not demand repayment prior to May 1, 2005.

9. Share capital

(a) Authorized

Unlimited number of common shares

(b) Common shares issued

	Number of Shares		Amount
Balance, April 30, 2002, 2003 and 2004	6,078,675	$	357,611

(c) Stock options

The Company has a stock option plan, administered by the Board of Directors, in which up to 10% of the issued and outstanding common shares are reserved for issuance. The options granted under the plan vest immediately and expire at the earlier of five years from date of grant or the date from which the optionee ceases to be a director, employee or consultant.

The following tables summarize information about stock options outstanding and exercisable:

	April 30, 2004		April 30, 2003	
	Options	Weighted – Average Exercise Price $	Options	Weighted – Average Exercise Price $
Opening	475,000	1.00	475,000	1.00
Granted	-	-	100,000	0.68
Cancelled	-	-	(100,000)	(0.68)
Expired	(100,000)	(1.00)	-	-
Closing	375,000	1.00	475,000	1.00

The weighted average remaining contractual life of options outstanding at April 30, 2004 is 2.88 years.

(d) Escrowed shares

Pursuant to the prior business combinations, 3,648,090 common shares of the Company were held in escrow under the terms of a Value Escrow Agreement. Escrowed shares are releasable as to 10% on February 1, 2002 and 15% every six months thereafter with the final release on the 36th month. As at April 30, 2004, 1,094,427shares remained in escrow.

(e) Per share amounts

Per common share amounts were calculated using a weighted average number of shares outstanding at April 30, 2004 of 6,078,675 (2003 – 6,078,675). In computing diluted per share amounts, no shares were added to the weighted average number of common shares outstanding during the year ended April 30, 2004 (2003 – nil) for the dilutive effect of options. A total of 375,000 (2003 – 475,000) options were excluded from the diluted calculations as they were anti-dilutive.

9. Share capital (continued)

(f) Pro forma disclosure

Pro forma information for the year ended April 30, 2003 for the fair value of options granted prior to May 1, 2003 was estimated at the date of granting using a Black-Scholes Option Pricing Model with the following assumptions and results:

Number of Options Issued	Weighed - Average Risk Free Interest Rate	Dividend Yield	Weighted-Average Volatility	Weighted-Average Expected Life of Options	2003 Pro forma Cost	2003 Pro forma Earnings Per Share Basic and Diluted
				(years)	$	$
50,000	5.9%	0%	108%	5.00	26,800	0.01

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods.

10. Income taxes

The provision for income taxes differs from the amount obtained by applying the combined Federal and Provincial income tax rate to income before income taxes. The difference relates to the following items:

	2004	2003
Statutory rate	34.5%	35.6%
Expected income tax expense (reduction)	(35,120	33,409
Non-deductible expenses	1,313	4,402
Effect of change in tax rate	11,932	15,112
Other	(4,197	21,644
Change in valuation allowance	10,968	(67,092)
Income tax expense (reduction)	(15,104	7,475

The components of the net future income tax asset are as follows:

	2004	2003
Future income tax assets		
Capital assets	$ 311,987	253,138
Non-capital loss carryforwards	86,001	153,293
Share issue costs	6,267	8,611
Other	7,365	7,546
	411,620	422,588
Less: Valuation allowance	(411,620)	(422,588)
Net future income tax asset	$ -	-

10. Income taxes (continued)

As at April 30, 2004, the Company had approximately $249,000 in non-capital losses available for deduction against future taxable income, the benefit of which has not been recognized in these consolidated financial statements.

Non-capital losses expire as follows:

2005	113,500
2006	62,000
2007	47,700
2008	11,800
2009	14,000
	249,000

11. Government assistance

In July 2003, the Company received a grant for 80% of salaries incurred in the direct performance of seismic processing research. During the year, $67,403 of grant proceeds were earned and recorded against direct seismic processing wages and benefits. Under the terms of the grant, the Company is eligible for an additional $16,575 of grant proceeds for research performed in fiscal 2005.

12. Change in non-cash working capital

	2004	2003
Accounts receivable	230,439	(1,936,679)
Prepaids and deposits	(4,068	(12,620)
Income taxes receivable	2,787	5,631
Accounts payable and accrued liabilities	(206,644	1,205,810
	22,514	(737,858)

13. Financial instruments

(a) Fair values of financial assets and liabilities

Financial instruments of the Company consist mainly of cash, accounts receivable, operating line of credit, accounts payable and accrued liabilities, long-term debt and shareholders' loans. As at April 30, 2004 and 2003, there were no significant differences between the carrying amounts reported on the balance sheet and their estimated fair values. The Company has not entered into any hedging contracts.

(b) Credit Risk

The majority of the Company's accounts receivable are in respect of seismic acquisition and processing operations. The Company generally extends unsecured credit to these customers, and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions and may accordingly impact the Company's overall credit risk. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Company has not experienced any material credit loss in the collection of receivables in the past.

14. Commitments

Under the terms of lease agreements for its premises and vehicle operating leases, the Company is committed to the following payments:

2005	$ 205,848
2006	133,317
2007	76,158
2008	10,062

15. Comparative figures

Certain comparative figures have been reclassified to conform with current year presentation.